Summary:

Chula Vista Redevelopment Agency, California; Tax Increment

Primary Credit Analyst:
Paul Dyson, San Francisco (1) 415-371-5079; paul_dyson@standardandpoors.com

Secondary Credit Analyst:
Misty Newland, San Francisco (1) 415-371-5073; misty_newland@standardandpoors.com

Table Of Contents

Summary:

Chula Vista Redevelopment Agency, California; Tax Increment

Credit Profile		
US$21.22 mil Tax alloc rfdg bnds (Merged Redev Proj) ser 2008 due 09/01/2036		
Long Term Rating	A/Stable	New
Chula Vista Redev Agy 2000 Tax Increment (Merged Redev Proj)		
Unenhanced Rating	A(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its underlying rating (SPUR) to 'A' from 'A-' on the Chula Vista Redevelopment Agency, Calif.'s outstanding tax allocation bonds (TABs) issued for the merged project area. In addition, Standard & Poor's assigned its 'A' rating to the agency's series 2008 tax allocation refunding bonds, issued for the merged project area.

The raised rating reflects the project area's continued strong growth and diversification. Average annual assessed valuation (AV) growth between fiscal 2004 and 2008 has been 24%, or a likewise robust 9%, excluding additional AV related to the amended area added in fiscal 2006. In addition, concentration within the leading 10 taxpayers has declined, as they represent 28% of incremental AV, down from 37% in 2006 and 54% in 2000.

Additional credit factors supporting the raised rating include:

- A large, primarily commercial, 2,576-acre project area located in the City of Chula Vista, with convenient employment access to the City and County of San Diego;
- Very strong coverage of maximum annual debt service (MADS) at 3.2x, given 2008 pledged revenues; and
- Strong legal provisions with a 1.50x additional bonds test, and no current additional bonding plans.

These strengths are offset by:

- A moderate volatility ratio of 0.46, suggesting moderate sensitivity in tax increment revenues, due to fluctuations in total AV; and
- Increased AV appeal activity, although the maximum potential AV decline of 4% of incremental AV is manageable.

Tax increment revenues from the agency's merged project area secure the bonds. The bonds are being issued to refund the agency's series 2000 tax allocation bonds, issued for the merged project area, and to fund generate $3.7 million in proceeds to pay a portion of a loan due to the city.

Located eight miles south of San Diego and seven miles north of the Mexican border, Chula Vista is a rapidly growing city of about 224,000 as of 2007, up a strong 29% since just 2000. Population growth averaged 3.7% annually between 2000 and 2007. Although the city participates in the San Diego County MSA, its proximity to

Mexico also creates a strong economic link to nearby Tijuana, Mexico, as well as other border cities such as San Ysidro. In addition, the relatively more affordable real estate market in the city versus areas to the north and west has made the area an attractive area for business and residential development. Median household and per capita buying income levels as of 2007 were 117% and 93% of the national averages, respectively. Chula Vista's 2005 unemployment rate averaged 5%, below that of the state (5.3%) and nation (5.2%).

The nearly built-out (94%) project area is primarily commercial by AV (55%), but also including a significant industrial component (25%) with 14% of AV residential. The merged project area includes the city's major retail mall, as well as two other shopping centers in addition to many other major retail and office properties. Formed in August 2000 from the merger of three existing project areas, the merged project area had an initial AV of $596 million, and has since grown to $1.52 billion as of fiscal 2008. AV growth for the merged project area has been very strong, with an average annual growth rate of 24% between 2004 and 2008. The merged project area was amended in fiscal 2004 to include other properties within Chula Vista, the amendment area, with the AV increase of $471 million from this newly created project area in fiscal 2006. Excluding the addition of this area, AV growth has still been a strong, average 9% annually. As growth has occurred, concentration in AV among the 10 leading taxpayers has declined, and as of fiscal 2008, it accounted for a still moderately concentrated 28% of incremental AV, which is down from a moderate 37% in 2006 and 54% in 2000. The leading taxpayer, a 65-acre regional shopping mall, accounted for 8% of 2008 incremental AV, down from 12% in 2006.

A strong additional bonds test of 1.50x MADS and very strong current coverage somewhat offsets the concentration in the leading taxpayers. In addition, future growth prospects are good, with additional commercial development planned including retail, an auto dealership, and a large-scale commercial office space.

Pledged revenues for fiscal 2008 cover MADS (under an extremely conservative no growth scenario) by 3.2x, with annual debt service coverage in 2014, when MADS occurs, assuming a 2% growth rate stronger at 3.8x. The base-to-incremental AV tax volatility ratio, a reflection of the rate at which tax allocation revenues would rise or decline with small changes in AV, measured 0.46 in fiscal 2008, also improving from 0.56 in 2006.

There are several tax-sharing agreements with underlying taxing entities. A tax-sharing agreement with the county will cause only a slight reduction in agency revenues in 2015. Each of the former project areas that formed the merged project area has a separate cumulative limit on the amount of tax increment that can be collected for the life of the project area. The agency has covenanted that it will not allow the aggregate amount of annual debt service remaining to exceed 95% of the aggregate amount of tax allocation revenues that the project area is permitted to receive. The agency currently has no additional bonding plans.

Outlook

The stable outlook reflects the expectation of continued very strong coverage of MADS, given no additional bonding plans, good growth prospects and given the project areas favorable location in southern San Diego County. Although appeal activity has increased, the maximum decline in AV appears manageable given the size of the tax base, strong coverage and the strong 1.50x additional bonds test.

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit

Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.